

# Market Insights – Balanced 2.0

27 February 2017

*“If you look at the policies that Trump has committed himself to, they are...far more stimulative than what people were expecting...”* **Goldman Sachs CEO Lloyd Blankfein, January 2017**

*“Global yields lowest in 500 years of recorded history...This is a supernova that will explode one day”*  
**Bill Gross, July 2016**

**Julian Howard, Head of Multi-Asset Solutions**  
GAM Investment Solutions

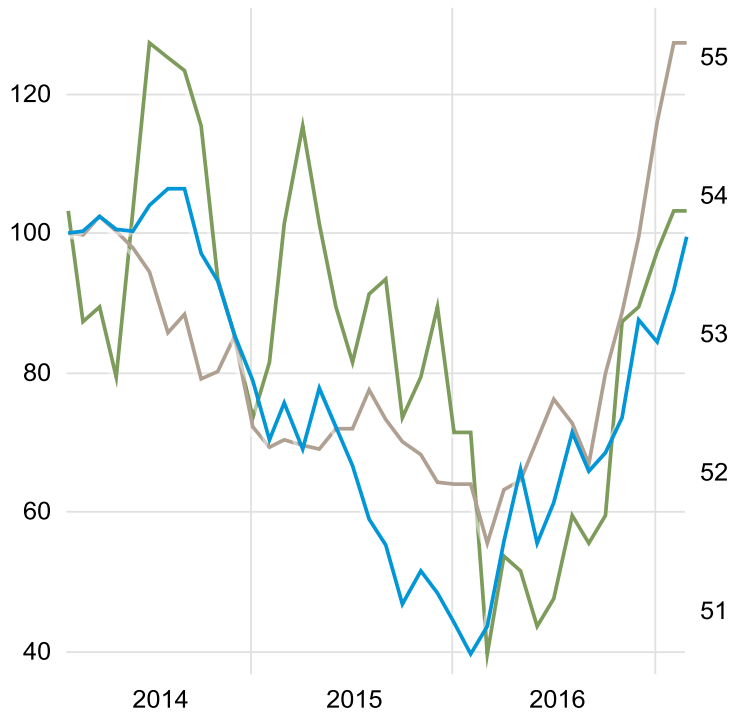
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  - **The European investment dilemma – fear or cheer?**
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# Equity fundamentals are improving at a pace

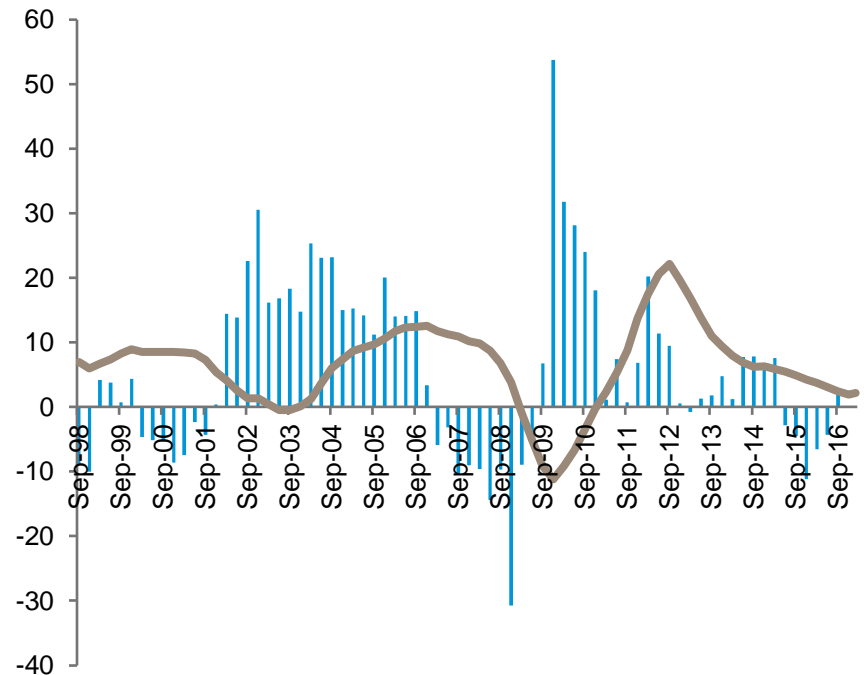
From 31 Jan 2014 to 22 Feb 2017

High frequency growth indicators rising...



- NYSE Arca Steel Index (rebased 100, LHS)
- MS Global Trade Leading Indicator (rebased 100, LHS)
- JPMorgan Global Composite PMI (RHS)

...US corporate earnings, expectations rising

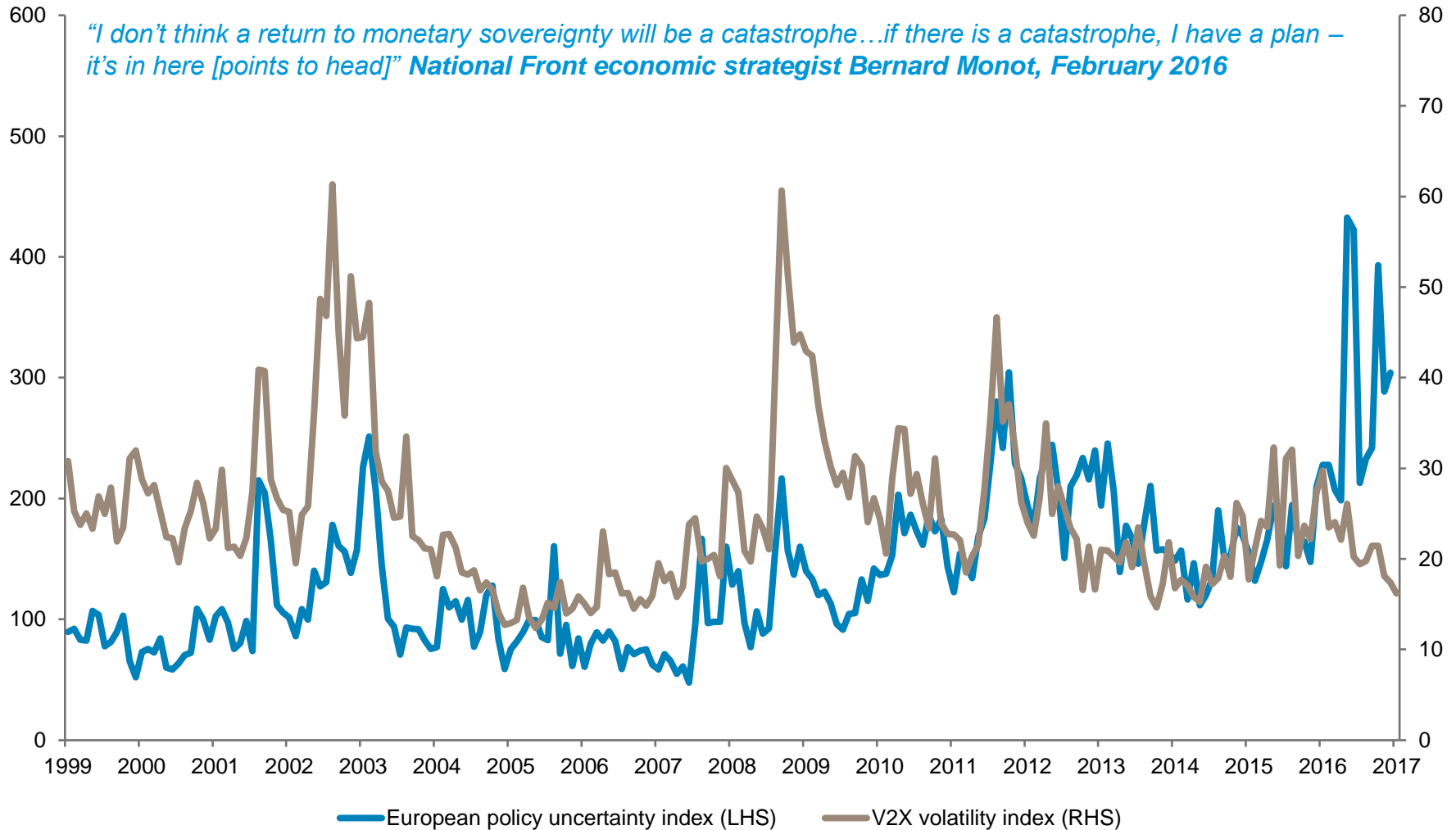


- US profits, % change previous year
- US profit expectations, % change previous 3mma

Past performance is not indicative of future performance.

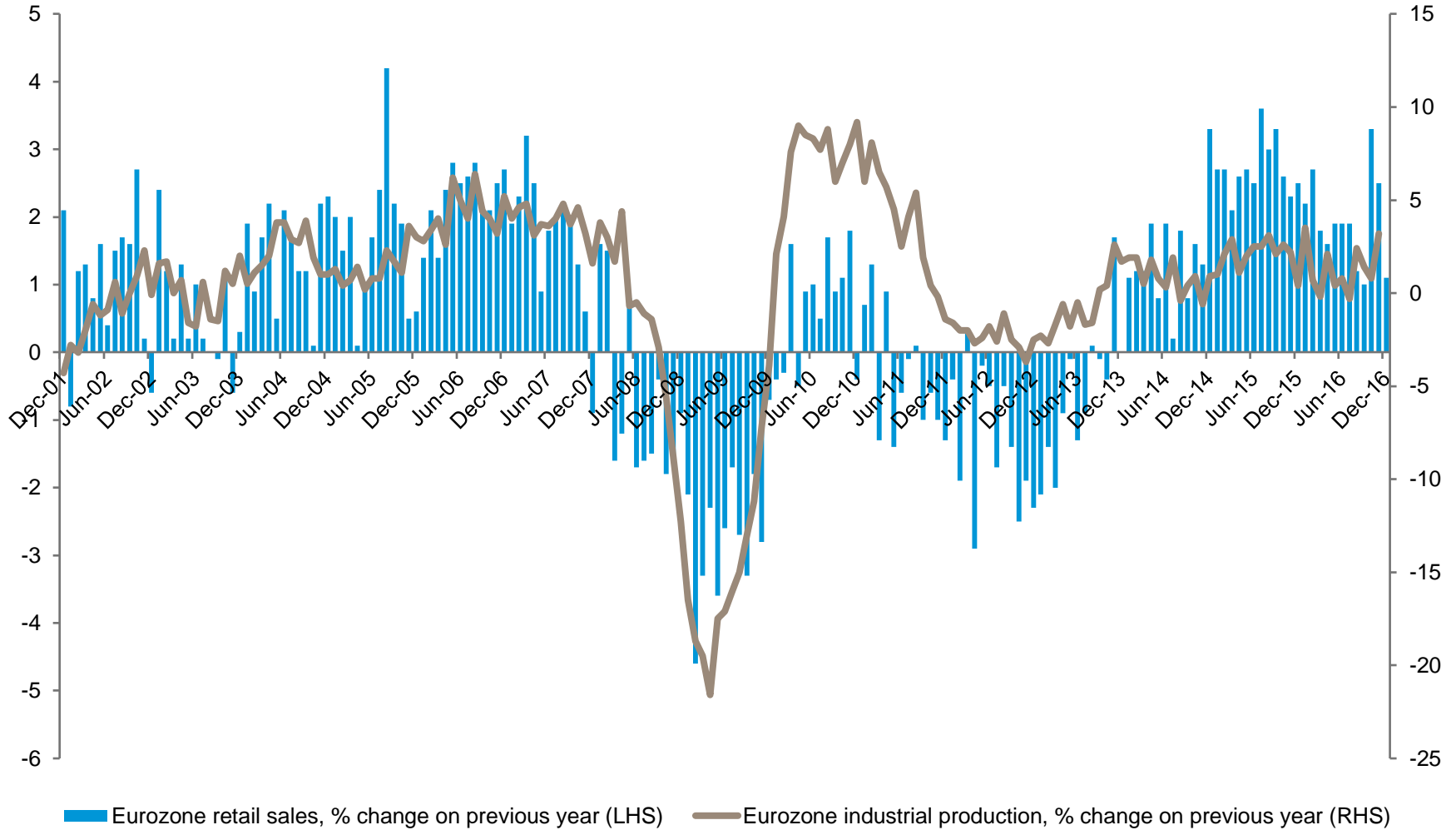
# The European investment dilemma – fear or cheer?

Data from 31 Dec 2001 to 31 Dec 2016



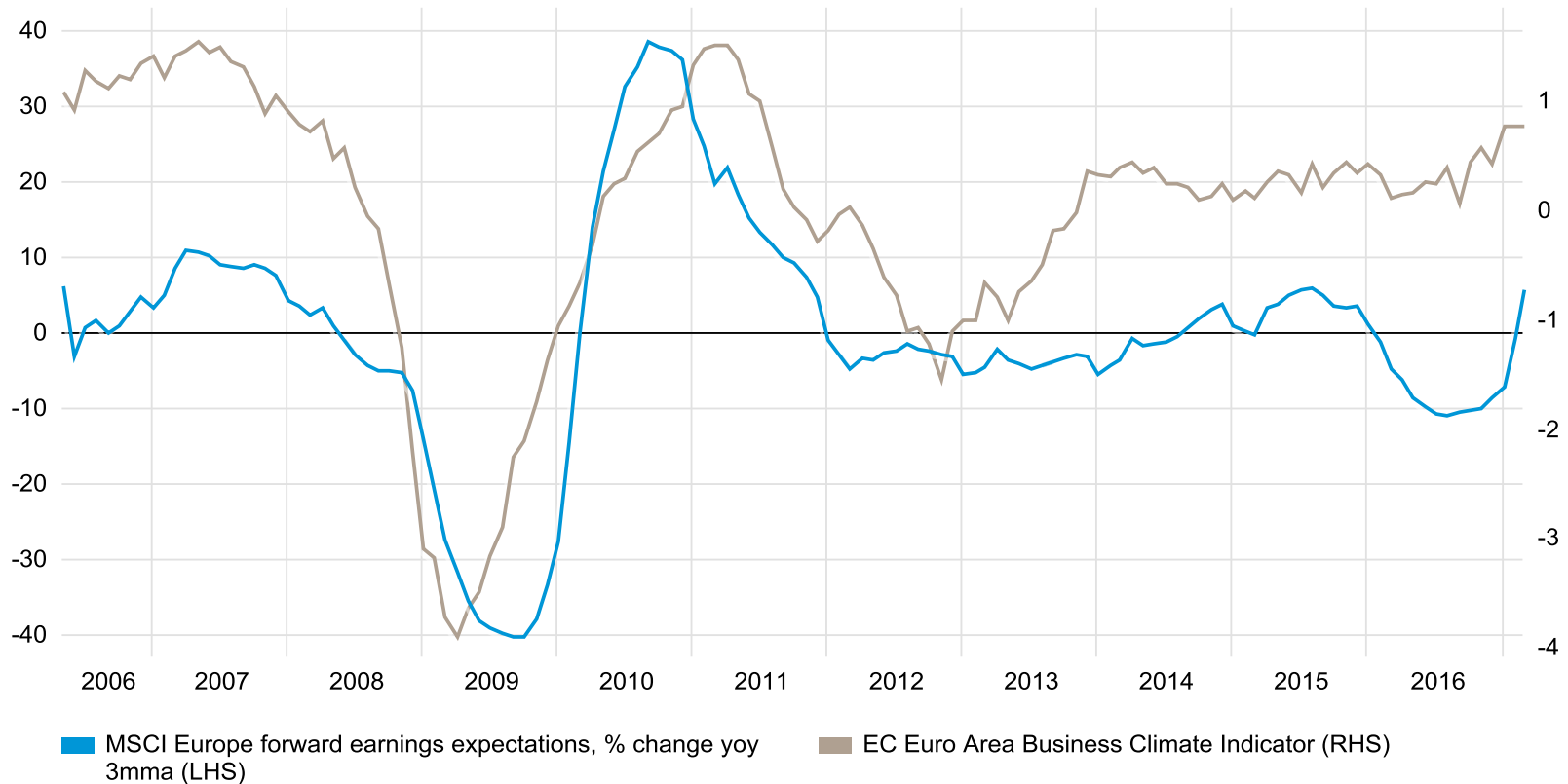
# Europe's economic progress is broad-based

Data from 31 Dec 2001 to 31 Dec 2016



# Europe S.A.'s earnings outlook turns positive again

From 30 Apr 2006 to 22 Feb 2017

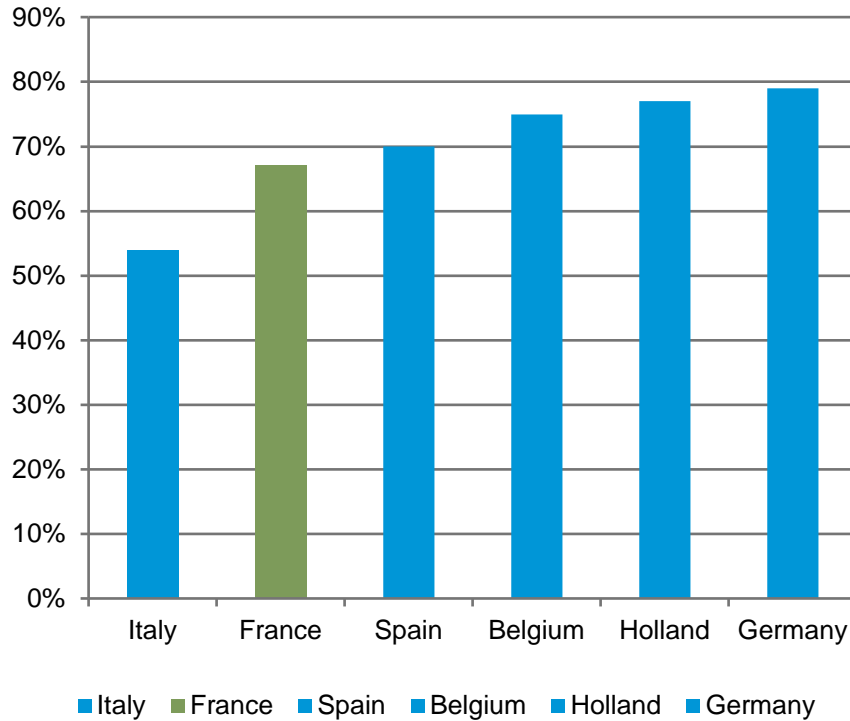


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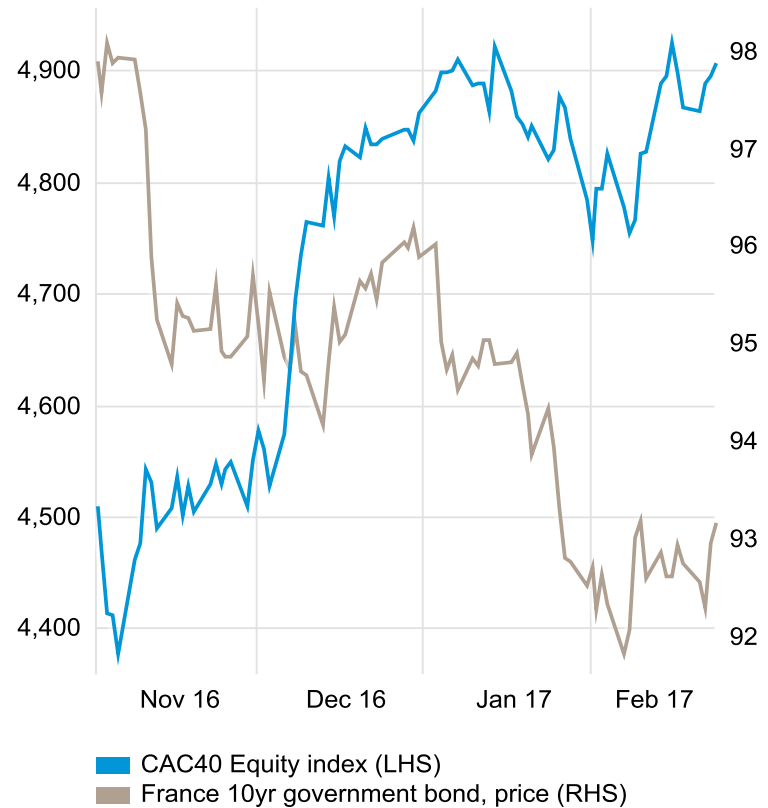
# Locals provide reassurance on political anxiety

From 31 Oct 2016 to 23 Feb 2017

### Do you support the Euro?



### French equities hold up, bonds sell off

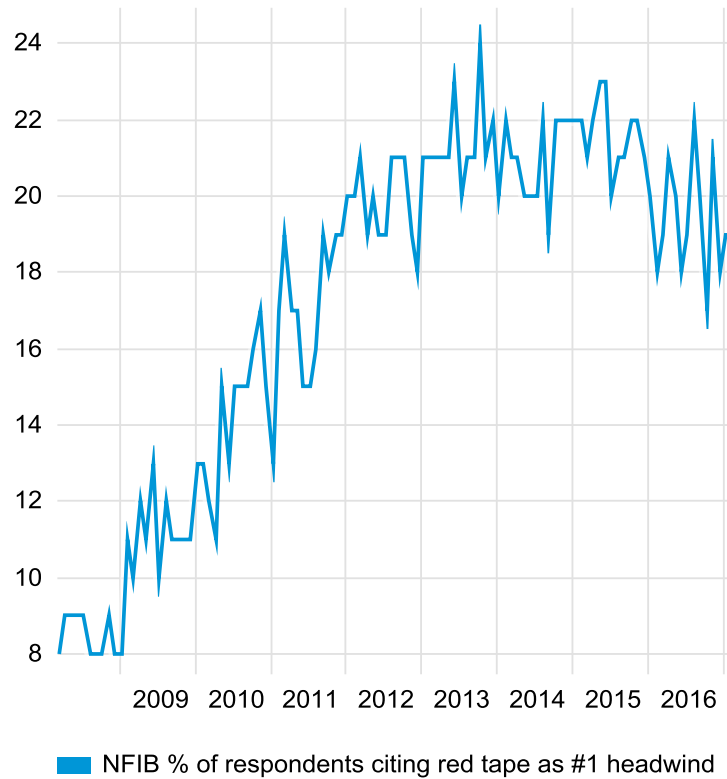


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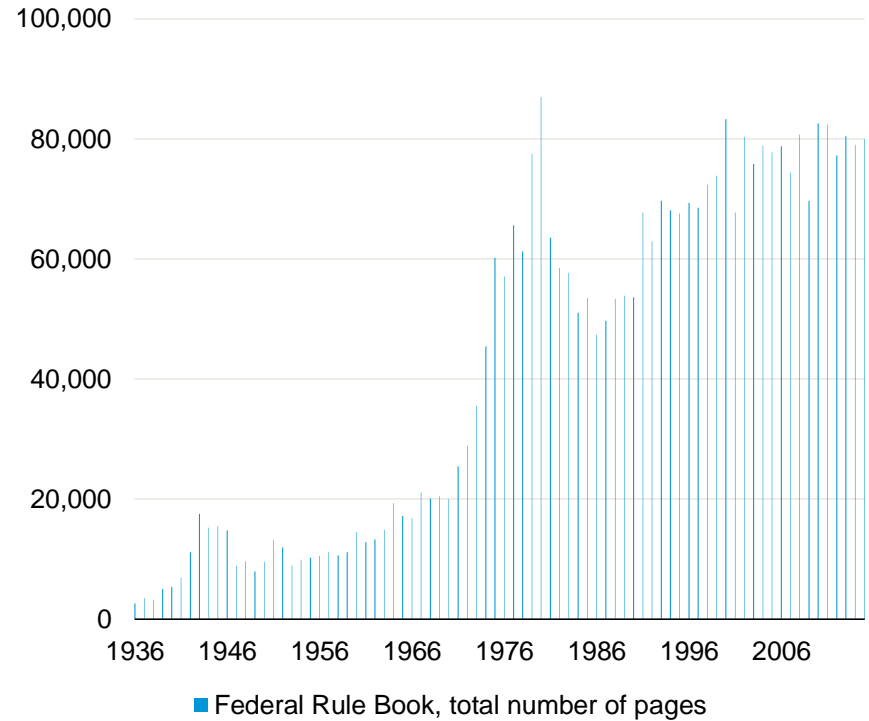
# US de-regulation will be a great relief

From 29 Feb 2008 to 31 Jan 2017

### Small business concerned about red tape



### Federal regulations just keep growing



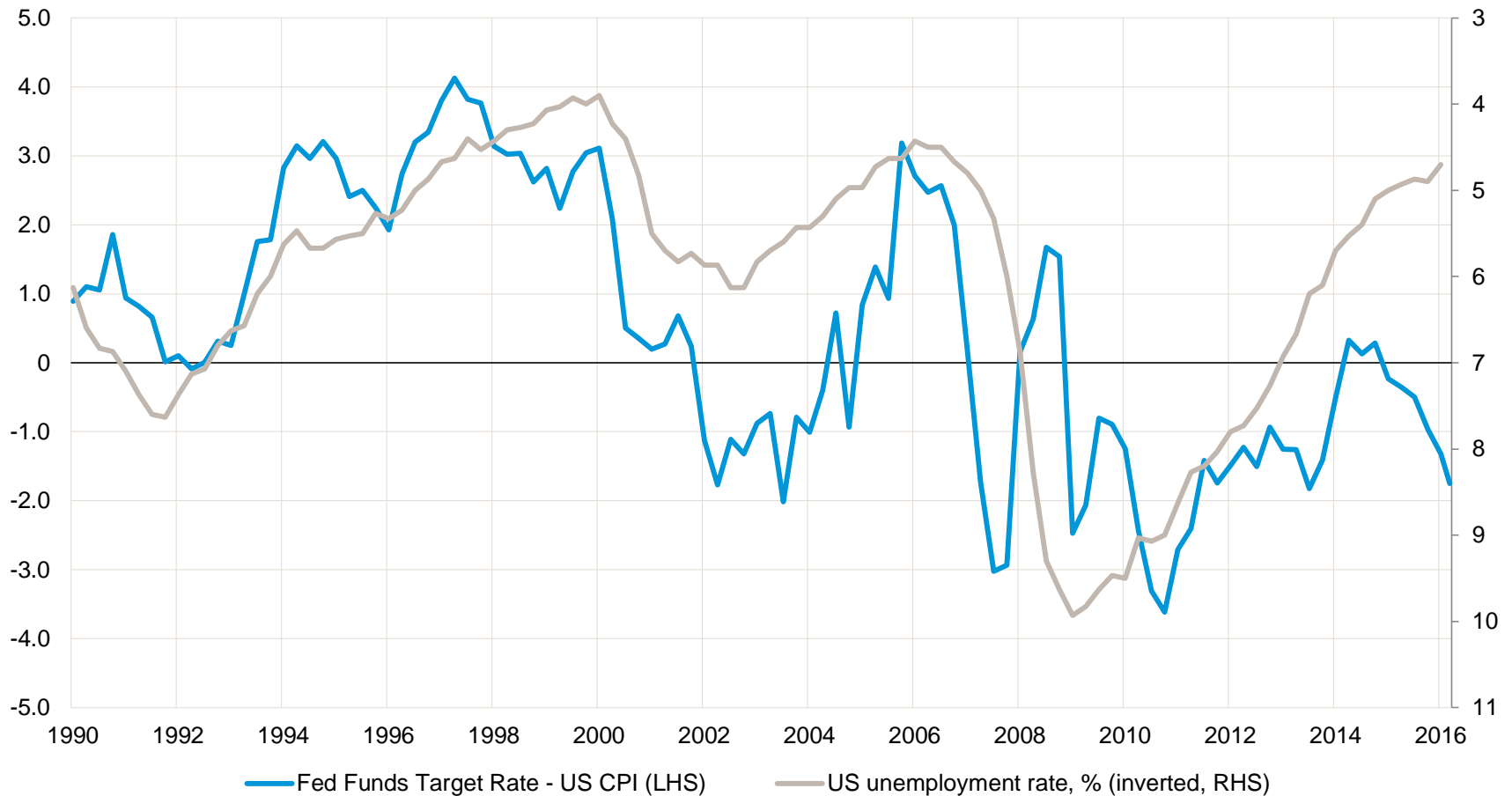
Past performance is not indicative of future performance.



# Fed's inflation view worth watching though

From 30 Dec 1990 to 28 Feb 2017

Real Fed Funds rate appears very low relative to lack of capacity implied by headline unemployment rate..

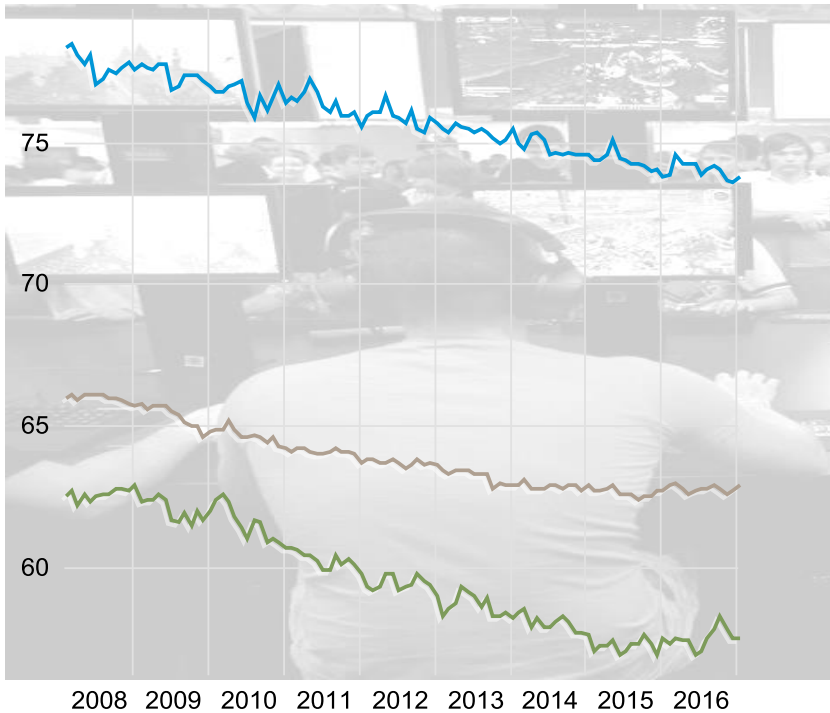


Past performance is not indicative of future performance.

# What happened to 'running the economy hotter'?

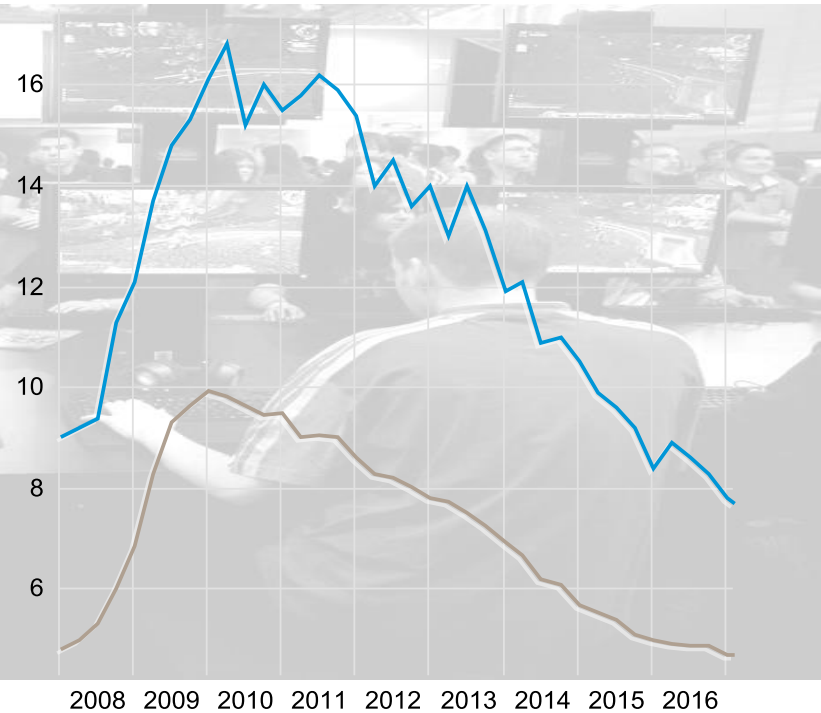
From 1 Feb 2008 to 1 Jan 2017

### Labour participation reveals divided economy



- Over 25, Bachelor's degree and higher, %
- Entire labour force, %
- Over 25, High school diploma only %

### Some groups might benefit from Fed behind the curve

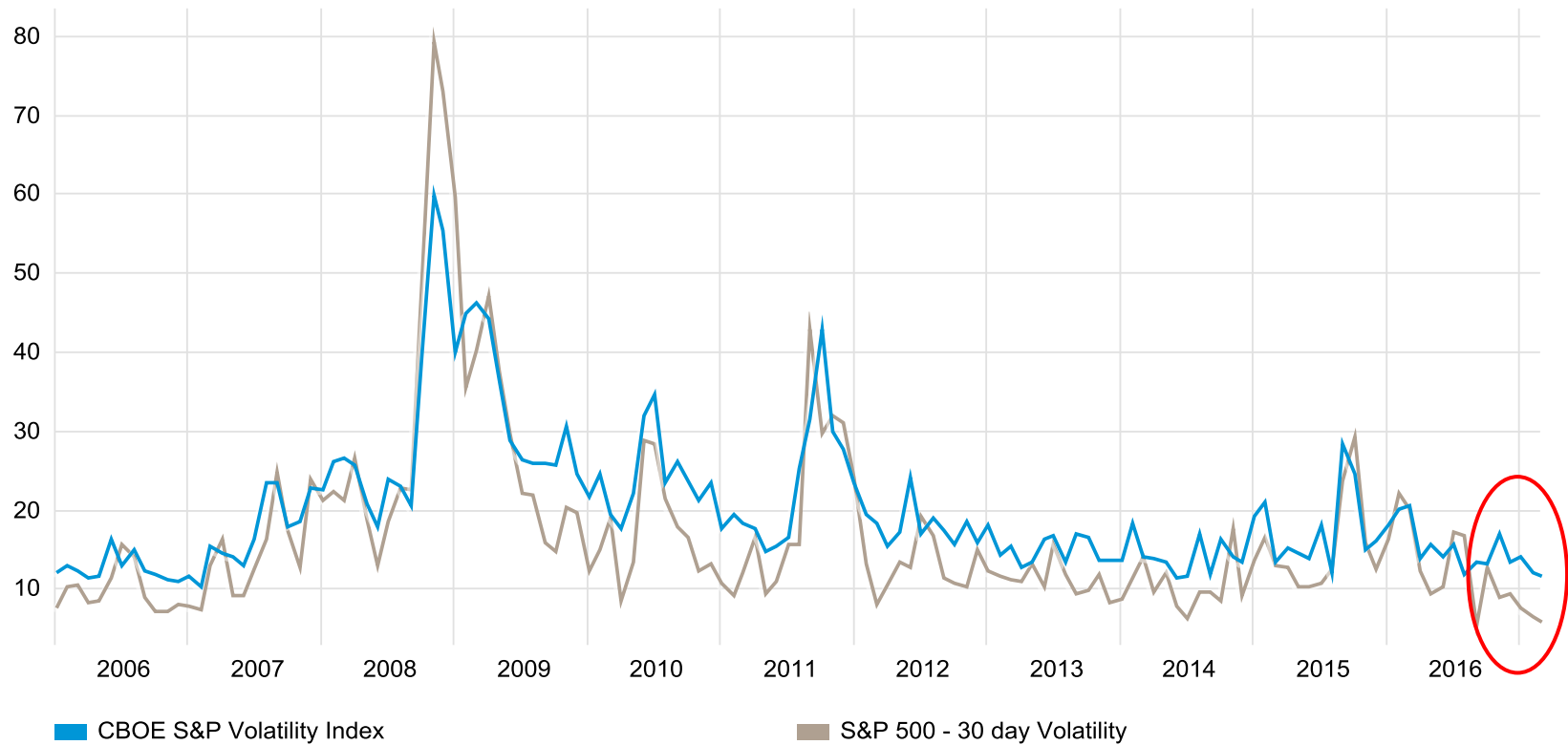


- US unemployment rate for African Americans, %
- US overall unemployment rate, %

Past performance is not indicative of future performance.

# Volatility - some pickup in evidence

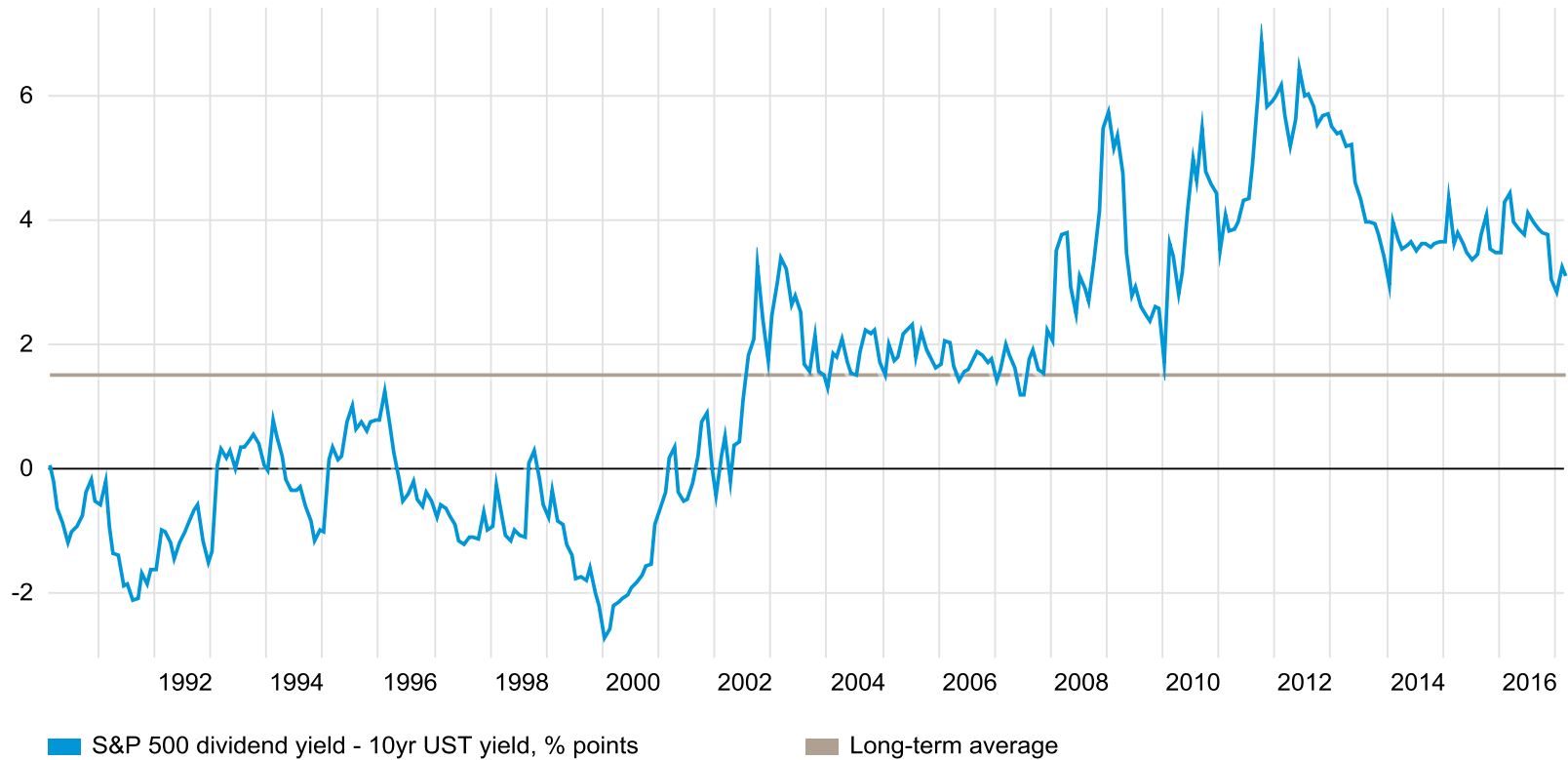
From 30 Dec 2005 to 23 Feb 2017



Past performance is not indicative of future performance.

# But ERP still favours TINA

From 31 Jan 1990 to 23 Feb 2017

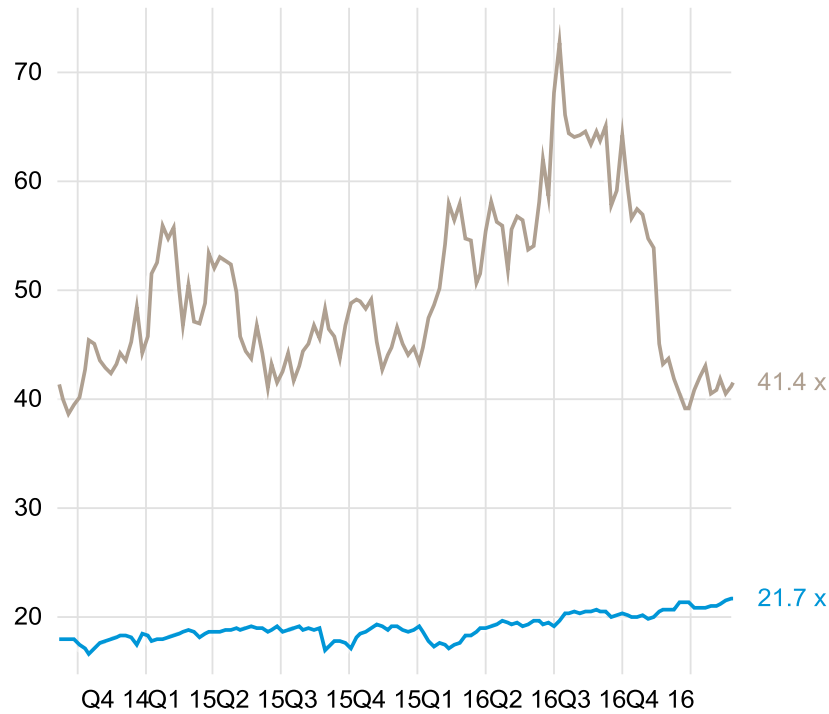


Past performance is not indicative of future performance.

# How to diversify? Not government bonds!

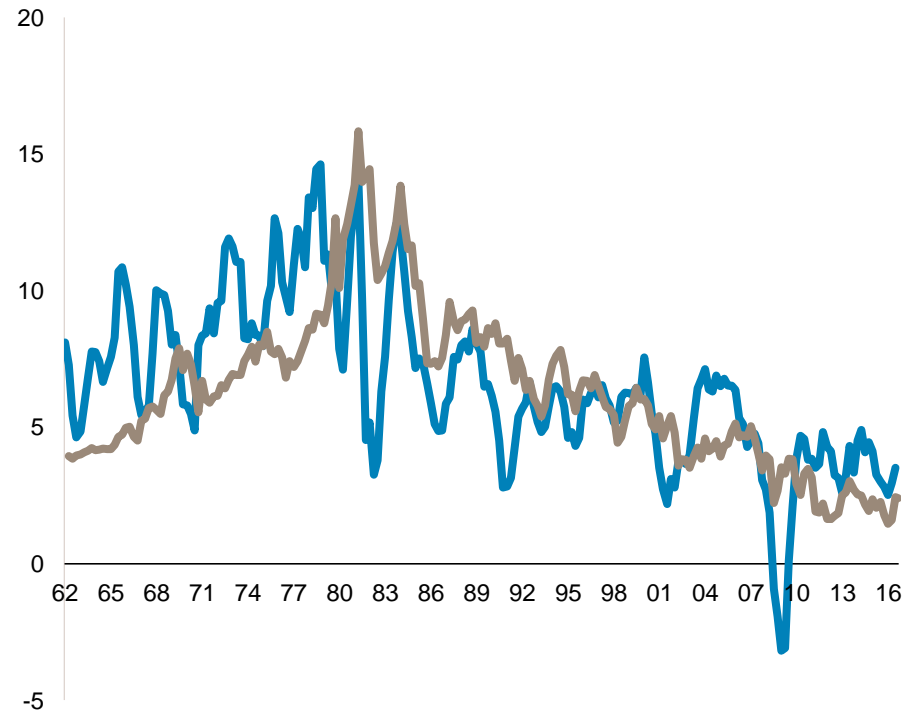
From 2 Sep 2014 to 22 Feb 2017

### Implied Price/Earnings ratio



■ S&P 500 index  
■ US 10-year government bond

### Bond yields should reflect higher nominal GDP



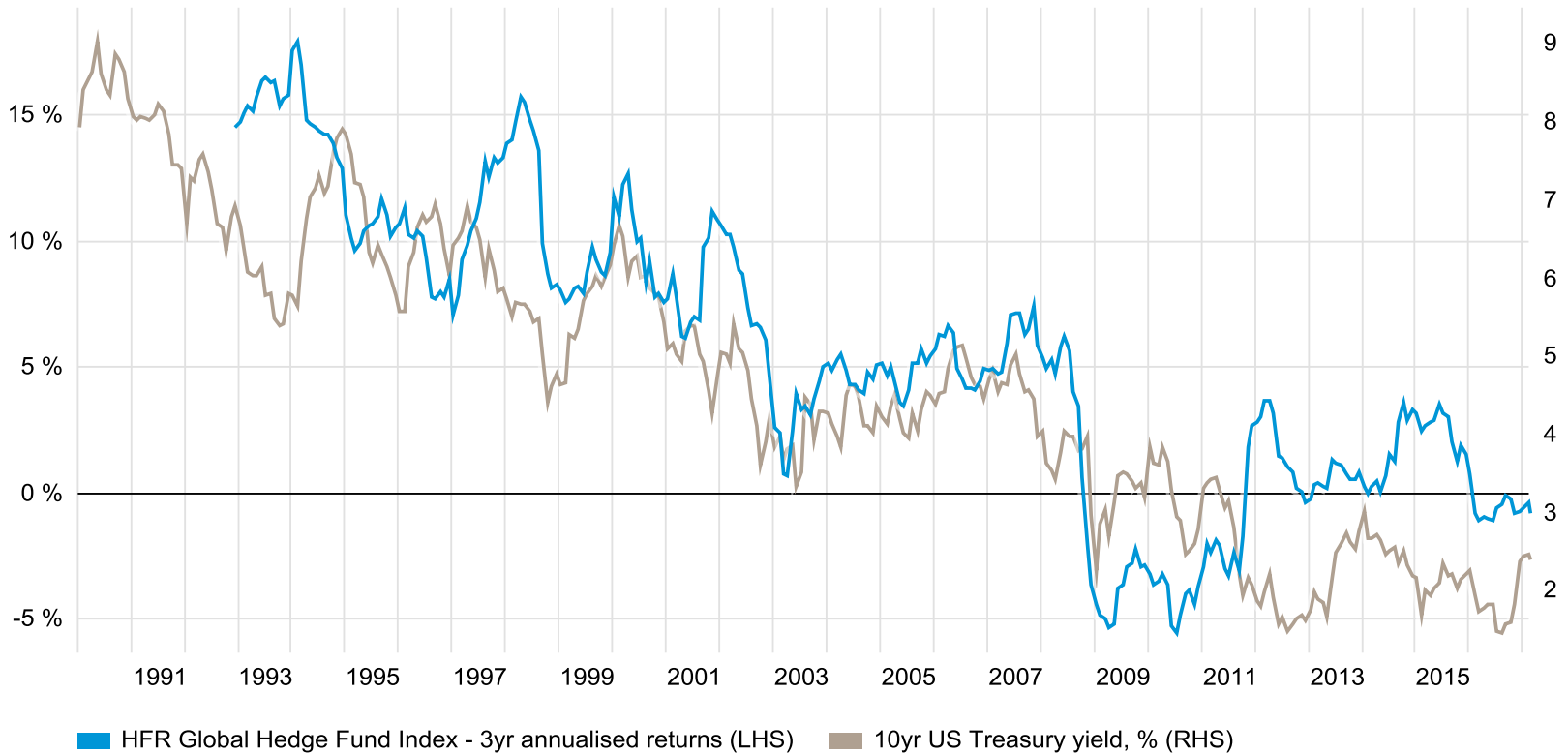
■ US nominal GDP growth, % change previous year  
■ US 10-year government bond yield, %

Past performance is not indicative of future performance.

# Alternatives challenged by low yield environment



3 years rolling annualised returns from 29 Dec 1989 to 7 Feb 2017



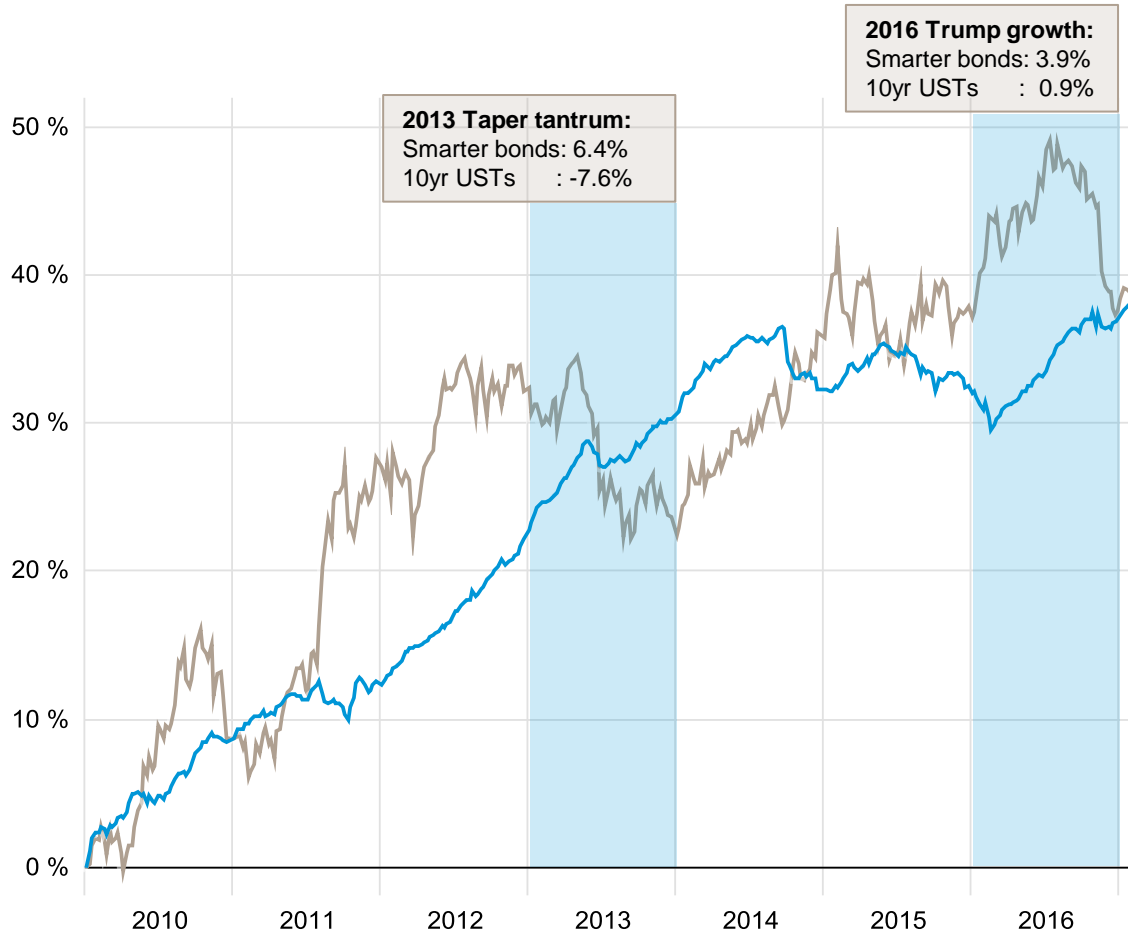
Past performance is not indicative of future performance.

Source: Hedge Fund Research, Thomson Reuters

# A bond book with superior risk-adjusted returns



Performance from 31 Dec 2009 to 20 Feb 2017



**2013 Taper tantrum:**  
Smarter bonds: 6.4%  
10yr USTs : -7.6%

**2016 Trump growth:**  
Smarter bonds: 3.9%  
10yr USTs : 0.9%

	Simple Perf. %	Ann. Perf. %	Ann. Std. Dev.
<span style="color: blue;">■</span> CMPBF	38.8	4.7	2.4
<span style="color: brown;">■</span> US10P	38.6	4.7	6.6

■ GAM Composite AR USD - Fixed Income and Credit  
■ 10-year US government bond index USD

Past performance is not indicative of future performance. Performance is provided gross of fees.

Source: GAM, Thomson Reuters

Allocations and holdings are subject to change. GAM Composite Absolute Return USD – Fixed Income and Credit is a performance series based on the Fixed Income and Credit portion of the Absolute Return portfolio. It is not in itself a fund or strategy that can be accessed separately and so its performance must always be viewed in the context of the wider Absolute Return portfolio.

# Scenarios for 2017

Data as at 04 Jan 2017

Probability: %	Crisis: 10%	Stagnation: 20%	Reflation: 60%	Boom: 10%
	<ul style="list-style-type: none"> <li>Global GDP &lt;2%</li> <li>DM slows, EM follows</li> <li>Geopol. / systemic crisis</li> <li>Profits relapse</li> <li>Markets tumble</li> </ul>	<ul style="list-style-type: none"> <li>Global GDP &lt;3%</li> <li>Reflation stalls, EM lags</li> <li>Geopolitical tensions</li> <li>Profits go sideways</li> <li>Markets correct</li> </ul>	<ul style="list-style-type: none"> <li>Global GDP &gt;3.5%</li> <li>DM, EM growth</li> <li>Geopolitics contained</li> <li>Profit recovery continues</li> <li>Gradual market progress</li> </ul>	<ul style="list-style-type: none"> <li>Global GDP &gt;4%</li> <li>DM recovers, EM takeoff</li> <li>Geopolitics benign</li> <li>Profits smash forecasts</li> <li>Bull market</li> </ul>
<b>Equities</b>	<b>-20 to -10%</b>	<b>-10 to 0%</b>	<b>2 to 7%</b>	<b>7 to 15%</b>
Allocation	10%	15%	40%	50%
Implied contribution	-1.5%	-0.8%	1.4%	5.5%
<b>Fixed Income &amp; Credit</b>	<b>2 to 5%</b>	<b>1 to 4%</b>	<b>0 to 3%</b>	<b>-3 to 1%</b>
Allocation	55%	50%	30%	25%
Implied contribution	1.9%	1.3%	0.5%	0.1%
<b>Alternatives</b>	<b>-2 to 5%</b>	<b>-1 to 5%</b>	<b>-1 to 5%</b>	<b>-2 to 5%</b>
Allocation	20%	25%	25%	20%
Implied contribution	0.3%	0.5%	0.5%	0.3%
<b>Liquidity</b>	<b>0% to 0.5%</b>	<b>0% to 1%</b>	<b>0.5% to 1.5%</b>	<b>2% to 3%</b>
Allocation	15%	10%	5%	5%
Implied contribution	0.0%	0.1%	0.1%	0.1%
<b>Expected return</b>	<b>0.8%</b>	<b>1.1%</b>	<b>2.8%</b>	<b>5.7%</b>
<b>Including alpha</b>	<b>1.6%</b>	<b>2.0%</b>	<b>3.8%</b>	<b>6.6%</b>

**Probability-weighted expected return including assumed alpha = 3.3%**

Source: GAM. For reference, OECD full year 2017 forecast for world GDP growth is 3.3%.

Allocations, asset class ranges and holdings are subject to change. The views expressed are those of the manager at the time and are subject to change. There is no guarantee that forecasts of strategies or objectives will be achieved.



# Strategic and tactical views – summary

Data as at 27 Feb 2017

	Low Conviction	Cautious	Neutral	Positive	High Conviction
<b>Equities</b> Positive		<b>UK</b> [sterling recovery, recession risk] <b>Japan</b> [currency risk]	<b>Europe</b> [Political risks elevated, but economy improving]	<b>US</b> [growth is back but valuations high] <b>Emerging Mkts</b> [sound fundamentals, opportunity]	
<b>Fixed Income</b> Positive		<b>Active aggregate bonds</b> [diversification rather than upside]	<b>Absolute Return approaches</b> [rates opportunities, careful risk control]	<b>Financial credit</b> [regulatory trend, steady underlying cashflows] <b>Liquid high yield</b> [safer return extraction]	<b>MBS</b> [steady return profile] <b>Insurance-linked</b> [low correlation to major indices]
<b>Alternatives</b> Cautious			<b>Macro trading</b> [potentially rich opportunity set for managers to exploit]	<b>Market neutral Equity L/S</b> [innovative non-directional approaches]	<b>Merger Arbitrage</b> [spread extraction with diversification can provide steady return profile]
<b>Flexibility</b> Positive	<b>Government bonds</b> [valuations, growth, inflation]			<b>Mexican bonds and currency</b> [carry, FX v JPY] <b>SEKNZD</b> [rising inflation in Sweden unnoticed]	<b>Thematic equities</b> [growth re-rating]

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# Q & A

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